

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Romero Analyst: Roger Lackey Bill Number: AB 1959
Related Bills: None Telephone: 845-3627 Introduced Date: 02-18-00
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Enterprise Zones/Extension Of Los Angeles Eastside Enterprise Zone

SUMMARY

This bill would require the Trade and Commerce Agency (TCA) to expand the Los Angeles Eastside enterprise zone. Taxpayers within the area of this zone would be eligible for the tax benefits currently allowed to all taxpayers within existing enterprise zones.

EFFECTIVE DATE

This bill would be effective January 1, 2001.

SPECIFIC FINDINGS

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, the TCA designates enterprise zones from the applications received from the governing bodies. Enterprise zones are designated for 15 years (except enterprise zones meeting certain criteria may be extended to 20 years), and TCA has designated each of the 39 enterprise zones authorized under existing law. When an enterprise zone expires, TCA is authorized to designate another in its place (or redesignate the existing zone) to maintain a total of 39 enterprise zones. TCA may approve the geographic expansion of enterprise zones up to 15% in size and, for certain small enterprise zones, up to 20% in size.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating within an enterprise zone.

This bill would require the TCA to extend the Los Angeles Eastside enterprise zone. This bill would specify that all references in the Revenue and Taxation Code to the enterprise zone section would apply to the extension created by this bill, thus extending the existing enterprise zone tax benefits to taxpayers in the expanded boundaries of the zone.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ <u>X</u> PENDING

Department Director

Date

Alan Hunter for GHG

3/14/00

Policy Considerations

Enterprise zones are designated for a period of 15 years. The existing Los Angeles Eastside enterprise zone was designated as such January 11, 1988, and is set to expire January 11, 2003. As a result, if the Eastside Los Angeles enterprise zone is not re-designated as an enterprise zone prior to its expiration, the extension area provided for by this bill would be eligible for the tax incentives of the enterprise zones for only a short period of time.

Implementation Considerations

This bill would extend the Eastside Los Angeles enterprise zone, however, the term "extend" is ambiguous and could mean that the bill would expand the boundaries of the Eastside Los Angeles enterprise zone, or it could mean an extension of the expiration date, or it could be both expanding the boundaries and extending the expiration date. Discussion with author's staff indicated it's the author's intent that this bill expand the boundaries of the Eastside Los Angeles enterprise zone, as a result, consideration should be given to amending the bill to clarify the author's intent.

Once the implementation concern is resolved, incorporating the expanded boundaries into the existing zone program after it has been designated by TCA would be done during the department's annual updates.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from this bill are projected as follows:

Estimated Revenue Impact of AB 1959 Taxable Years Assumed After 12/31/1999 and Enactment After 6/30/2000 (In \$Millions)			
Fiscal Years	2000-01	2001-02	2002-03
Revenue Impact	(Negligible)	(Minor)	(\$0.5)

(Negligible) means less than \$50,000; (Minor) less than \$250,000.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Tax Revenue Discussion

Revenue losses under the Personal Income and the Bank and Corporation tax laws would largely depend on the number of businesses that would purchase qualifying property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming tax benefits.

Total revenue loss for the 38 designated zones was \$39 million (average of over \$1 million per zone) for tax year 1996. Because this extension applies to a significantly depressed area, revenue losses would most likely be below the average in the initial years of zone designation. Allowance was made for new businesses that might start up in future years.

BOARD POSITION

Pending.